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HIGHLIGHTS

The Soviet-Yugoslav dispute has been brought to the center of the international scene with the 20 October election of Yugoslavia to the UN Security Council. Although Soviet Foreign Minister Vishinsky's impassioned response accurately reflects the keen importance the Kremlin attaches to this event, the USSR will probably be careful not to take any steps which will substantially change present East-West relations and is quite unlikely to withdraw from the UN (see page 6). The Yugoslav election to the SC has clearly strengthened Tito's hand and has heightened the appeal of Titoism to Communists throughout the world.

Meanwhile, Yugoslavia's successful SC candidacy will increase the Kremlin's determination to destroy the Tito regime. Recent developments in the Balkans, including the withdrawal of most of the guerrillas from Greek territory and accelerated activity in Hungarian, Rumanian, and Bulgarian camps where dissident Yugoslavs are being trained for operations against Tito, point to a Soviet readiness to take more active measures in its anti-Tito campaign (see page 7).

Whether an Indonesian settlement will be shortly attained or whether there will be a new outbreak of widespread Dutch-Indonesian fighting is a question which currently hangs in precarious balance (see page 12). Delay in reaching a Dutch-Indonesian agreement at the Hague Conference has aggravated tension in Indonesia to such a degree that a serious incident could strain the cease-fire agreement to the breaking point and touch off a general conflict. If control can, however, be maintained in Indonesia for another week, prospects are fair that the Hague Conference can be brought to an early and successful conclusion.

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WESTERN EUROPE

ITALY

Anti-British Feeling Anti-British sentiment in Italy, which has been growing steadily since the end of World War II, has been sharply intensified by recent British actions and now threatens to reduce Italy's political and economic cooperation with the West in general. Italian official and public opinion has been aroused by the exclusiveness of US-British negotiations leading to devaluation of the pound and by purported British opposition both to Italy's claims on its former colonies and to inclusion of Italy in the area of Western Europe to be defended in case of war with the USSR. In general, the Italians are becoming more convinced that the British are selfishly seeking maximum military and economic advantages with little or no regard for the continental nations of Western Europe. Italy's direct dependence on the US has thus far led the Italians to use the UK as the scapegoat for their resentment over various international developments unfavorable to them. However, this resentment could also be turned against the US. The cut in ECA aid and Italy's failure to obtain representation in the Atlantic Pact organization on a par with the UK and France have irritated the Italians. Furthermore, US leadership in European military and economic policies unsatisfactory to the Italians and close US cooperation with the British on matters affecting Italy could cause the presently strong pro-US attitude of the Italians to shift to one less cooperative with the West in general.

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SPAIN

Franco's Opposition The recent agreement by the Spanish non-Communist leftists to grant unconditional support to a restoration of the monarchy under Don Juan for a period of four years places the initiative for action against Franco for the first time fully in the Pretender's hands. The anti-Franco forces, however, apparently do not plan any immediate direct attempt to overthrow the regime, but instead are pinning their hopes on a deterioration of the Spanish economy which would induce the Army to withdraw its support from Franco. Capitalizing on the widespread criticism of the regime throughout Spain and a new liberal trend among university students, the Monarchists are concentrating their efforts on weakening army loyalty and are emphasizing Franco's failure to obtain foreign financial assistance. Despite this Monarchist agitation, however, there are as yet no signs of serious disaffection within the army. In fact, the army's loyalty to Franco has probably been reinforced, at least temporarily, by such developments as recent visits to Spain by US Navy and Congressional representatives, pronouncements by US political leaders favoring aid to Spain, and the announcement of the Soviet atomic explosion.

FRANCE

Cabinet Prospects The Radical Socialist Premier-designate Rene Mayer, invested by the French National Assembly by 31 votes more than the required majority, has a better chance of forming a Cabinet than did his predecessor Jules Moch. Mayer received support in the Assembly from Popular Republicans, Socialists, Radical Socialists, and a scattering of Rightists. His Cabinet will probably include a number of the members of ex-Premier Queuille's government,

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FRANCE

including former Foreign Minister Schuman. Although Mayer has not revealed his program in detail, it will probably embrace most of the basic proposals of Queuille and Moch, including the immediate granting of a bonus or allowances to the lowest categories of workers and a return to collective wage bargaining. Any new coalition government will, however, be faced with difficulties similar to those encountered by Queuille and Moch. Continued discord among the coalition parties can be expected as basic decisions become urgent and are rendered more difficult by the slowly accelerating price rise and the persistent obstacles to balancing both the 1949 and 1950 budgets.

GERMANY

Berlin Status Establishment of the Soviet-sponsored German Democratic Republic, besides formalizing the East-West division of Germany, has further complicated the status of Berlin. The USSR, for its part, has sought to maintain what remains of the facade of four-power occupation and administration in Berlin as based upon the Potsdam agreement. East Berlin representatives have been given only "observer" status in the upper chamber of the new East German Government, and previous claims that the lower chamber represents east Berlin have been moderated. Moreover, the Soviet commandant in east Berlin has protested alleged western power termination of the Berlin "normalization" talks authorized by the Council of Foreign Ministers (CFM) and stated that the USSR "adheres firmly to the instructions of the Paris CFM." In adopting this attitude, the Kremlin is probably attempting to prevent the inclusion of west Berlin

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in the West German Republic. The Kremlin undoubtedly realizes that such a union would bolster the morale of the West Berlin population and therefore hopes that, by blocking it, morale and economic conditions will eventually impel west Berliners to turn toward the German Democratic Republic. Meanwhile, the Bonn Government, though willing to grant some measure of financial relief to West Berlin, is not anxious to include the western sectors as a land of the Federal Republic and French opposition to such a proposal continues to be unyielding.

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EASTERN EUROPE

YUGOSLAV ELECTION TO SECURITY COUNCIL

Yugoslavia's dramatic election to the Security Council has considerably strengthened Tito's hand in his struggle with the Cominform, and this new evidence of western support for Tito will act as a further deterrent to Soviet aggressive action against Yugoslavia. Tito's prestige at home will be bolstered, the cause of "national" as opposed to "Moscow-dominated" Communism will have more appeal both in the Soviet orbit and in peripheral areas, and the Tito regime will be in a more advantageous position to denounce any dangerous Soviet threat to Yugoslav stability.

Although Soviet reaction to Yugoslavia's election will continue for some time to be bitter and threatening, the USSR is unlikely to withdraw from the UN or to take steps which will materially alter present East-West relations. The impassioned Soviet actions preceding and following Yugoslavia's election reflect primarily the extreme urgency the Kremlin attaches to the problem of eradicating Titoism. The Kremlin, however, is probably not yet willing to take steps toward Yugoslavia which would jeopardize its program elsewhere or even to permit the Yugoslav problem to affect its basic policies in such vital areas as Germany, Austria, or the Far East.

Yugoslavia's role in the Security Council will not be an easy one. Confronted with the task of finding its place between East and West while at the same time adhering to the doctrine of a Communist state, the Yugoslav delegation will generally follow a line of expediency dictated primarily by its appraisal of the effect its actions will have on the Yugoslav-Cominform struggle. Yugoslavia can be expected to support the independence of small nations against the "imperialism" of the great powers, both East and West, and in this connection will take advantage of numerous opportunities to accuse the USSR of "imperialistic exploitation" and acts of terrorism against smaller nations.

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East-West Trade The difficulty of increasing East-West trade without contributing to Soviet military potential is illustrated in the current West German-Bulgarian trade agreement whereby 40% of the materials to be received by Bulgaria will contribute to Satellite or Soviet industrial capacity. Principal industrial products to be shipped to Bulgaria (in return for consumer goods only) are $400,000 worth of spare parts for German machinery, $150,000 worth of mining cars, and $500,000 worth of 3-ton trucks and spare parts. The quantity of replacement parts for German machinery is far in excess of Bulgaria's needs and it is virtually certain the USSR is again using Bulgaria as a "middleman" for obtaining industrial parts which are now embargoed or prohibited by the western nations. Success of this Soviet maneuver will probably lead to increased efforts by other Satellites to obtain replacement parts for the large inventory of machinery of western origin in the Soviet bloc.

YUGOSLAVIA

Soviet Policy The withdrawal of the bulk of guerrillas from Greek territory and the recent switch in the Soviet propaganda line to include accounts of direct guerrilla action against the Yugoslav regime indicate that Soviet policy in the Balkans will be pointed primarily toward the destruction of the Tito regime and that the Kremlin is preparing for increased subversive and sabotage activities in Yugoslavia. Although there is little evidence that Greek guerrillas are being readied for anti-Tito activities, the presence of 8-10,000 Greek guerrillas in Cominform countries

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bordering Yugoslavia cannot be ignored by Tito. Moreover, several small camps for subversive and sabotage training of anti-Tito groups are being operated in the Satellites bordering Yugoslavia.

Training Camps The bulk of the recruits being trained for operations against the Tito regime are apparently drawn from: (1) pro-Cominform Yugoslavs who either were outside their country when Tito split with the Kremlin or who have since fled; and (2) anti-Tito members of Yugoslav minorities in the Satellites bordering Yugoslavia. One of the principal camps is reportedly located in Hungary at Janka Puszta near the Yugoslav border where approximately 300 Yugoslavs are training under the leadership of a former Yugoslav army officer. Timisoara, in Rumania near the Yugoslav border, is the headquarters for another group of about 300, and Bulgaria is reported to have two similar groups, one in Bulgarian Macedonia and the other on the northwest frontier. Bulgaria is also making efforts to rally Slavo-Macedonian nationalists against Tito's greater Macedonia aspirations. In Albania, Soviet officers are reported to be training small groups of Yugoslavs, Greeks, and possibly Germans for guerrilla action against Tito.

Meanwhile, Tito's agents have reportedly already been active among the Yugoslav minority groups on the Yugoslav periphery, and his security forces are probably capable of dealing with the limited subversive activity to which the Kremlin will probably restrict itself for the present.

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YUGOSLAVIA

Effect on Greece Increased Soviet concentration on the Tito menace is facilitated by the apparent Soviet withdrawal from the Greek venture as evidenced by the recent announcement of the guerrilla high command that military operations are being suspended temporarily. The large number of guerrillas that retreated into Albania and Bulgaria have been indoctrinated to believe that Tito's traitorous defection to the West was an important factor in the guerrillas' temporary failure. Meanwhile, the Kremlin probably hopes that the threat of renewed guerrilla incursions into Greece and a few pinpoint sabotage operations, plus general Balkan instability, will require the Greek Government to maintain a considerable burden of military expenditures even though US aid is curtailed. Under these conditions, the Kremlin probably considers that the general rehabilitation of Greece would be hindered sufficiently to make the revival of guerrilla warfare possible after the Tito regime has been liquidated.

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NEAR EAST - AFRICA

PALESTINE

Armistice Developments A sudden display of Israeli cooperation, combined with General Riley's skill and perseverance, has finally produced agreement on two border issues which have long complicated the administration of Israeli-Syrian and Israeli-Egyptian armistices. Prime Minister Ben-Gurion has now decided to destroy the controversial Israeli fortifications at Ein Gev, thus inducing Syrian evacuation and demilitarization at Mishmar Hay Yarden. In the southern Negev, Israel has accepted the interpretation of the armistice boundary provisions put forward by Egypt and Riley, and in return has been permitted to maintain defensive forces at a Jewish settlement on the Egyptian border. These developments, however, do not presage a permanent easing of border tension. Israel's more cooperative attitude may be explained by the immediacy of such factors as: (1) concern lest both disputed issues be submitted to the Security Council during the present session of the UN General Assembly; (2) a desire to avoid any action that might encourage a Syrian-Iraqi union; and (3) the current weakness of the Israeli Army, now in the process of reorganization. Within a few months these reasons for Israel's present willingness to compromise will no longer apply, and Israel can then be expected, regardless of the armistice agreements, to resume its efforts to resettle and fortify its frontier zones.

IRAN

Hardship in Azerbaijan Economic depression and deprivation in Azerbaijan have reached such proportions as to threaten the outbreak of rebellion among the people. Tribesmen are killing their livestock, seed wheat is

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being held for winter consumption, and peasants are migrating to the towns and demanding government relief. The Iranian Government recently arranged for the purchase of 100,000 tons of wheat from the USSR, and delivery was scheduled to commence last week. Although Soviet propaganda has already begun to make capital of this deal, no shipments have yet arrived. Meanwhile, the Planning Organization of Iran's economic development program has proposed a list of relief measures for Azerbaijan, including the immediate distribution of wheat (if only in small quantities) to restore public confidence, assistance in fall plowing, the provision of feed for livestock, and the initiation of road repair and construction projects to provide the workers with cash for necessities. Scarcity of food constitutes the chief problem. Unless the government can soon make substantial distributions of wheat, thus making good its repeated promises to alleviate the shortage, troops may well be required to preserve law and order in the northern border areas.

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FAR EAST

CHINA

Szechwan Invasion Following the easy occupation of Canton, the Communists may launch an attack within the next two weeks against Szechwan, China's most populous province and the most valuable area in China still in Nationalist hands. The major provincial centers including Chungking and Chengtu are likely to fall by the end of 1949 and by that time Taiwan will have become the National Government's only refuge and stronghold. The inadequate defenses of the approaches to Szechwan province will be less of an obstacle to quick Communist invasion than the scarcity of roads leading across the high rugged mountains surrounding the province. To the east in Hupeh province, there are no more than 100,000 troops who will probably offer only "face-saving" resistance to the Communists. To the north in Shensi province, the morale of Nationalist troops is extremely low and the local Nationalist commander can probably muster no more than 20-25,000 combat effectives. Within Szechwan itself, Nationalist forces number only 35,000 troops and an undetermined number of indifferent provincial conscripts. Available experienced Communist forces are thus capable of overrunning the defenses of the province in short order and the actual launching of the Communist attack is apparently awaiting only the proper disposition of troops.

INDONESIA

Truce Violations Settlement of the Indonesian problem now depends upon whether the delegates at The Hague Conference can reach agreement on the transfer of sovereignty to the Republicans before the deteriorating

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INDONESIA

military situation in Indonesia leads to widespread fighting between Dutch and Republican forces. The hitherto reasonably successful cease-fire agreement has been severely strained as a result of an increasing number of armed clashes and Dutch and Republican charges and countercharges of bad faith and truce violations. As a consequence of these incidents, which are being vigorously argued at a high government level instead of between local military commanders as previously, tension in Indonesia is mounting rapidly to the point where a serious incident might well lead to a general conflict. If the situation in Indonesia can be controlled within the next week, however, The Hague negotiations have a fair chance of coming to an early and successful end because:
(1) both the Dutch and Indonesians are evidently determined to conclude the conference successfully by 1 November;
(2) considerable progress has already been made; and
(3) there is a strong possibility that the delegates can settle certain controversial details after the over-all agreement has been announced.

INDOCHINA

Military Situation — Growing Vietnamese capabilities for resistance and a consequent steady deterioration in the French military position in Indochina will hasten a French decision to grant full sovereignty to Vietnam or greatly to increase its military effort in order to avoid disastrous and costly defeat. Despite the arrival of French re-inforcements, the French position on three of the four major fighting fronts continues to grow more untenable. In the north, the guerrilla activity has reportedly

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developed into a "real war" and the southern advance of the Chinese Communists will further increase the Vietnamese potential by permitting an increased flow of arms and supplies. Meanwhile, in their desperation, the French have adopted stringent military measures which are seriously damaging the Indochinese economy. For example, they have destroyed fruit trees and coconut palms along military routes, railroad workshops and rolling stock in resistance areas, and nearly a thousand junks and sampans in Cochinchina, thus further aggravating the severe rice shortage in Saigon. Although the French might be able to regain control of Indochina, it would require an all-out military effort. With the 1949 campaign already costing 60% more than the 1948 operation, it is doubtful whether France, in its already precarious financial position, could afford to divert to Indochina the additional money, troops, and supplies necessary for victory over the resistance forces.

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WESTERN EUROPE AND THE A-BOMB

In the near future, no major changes in the policies or attitudes of the governments and peoples of Western Europe are considered likely as a result of acknowledged Soviet possession of the atomic bomb. Reaction in Europe has been generally fatalistic and, except in Italy and in Vatican circles, anxiety concerning a third world war has not increased. All nations appear to have accepted as inevitable the USSR's ability to develop atomic technical capabilities; the necessity for revising previous estimates concerning the Soviet time-table for utilizing atomic energy now seems to be accepted with equal fatalism. The belief is widespread that the USSR's international position has been greatly strengthened, and the press has expressed the generally accepted need for increased international cooperation.

As time passes, the nations of Western Europe can be expected to intensify their efforts along lines of international cooperation and military preparation already formulated. For example, the announcement will stimulate greater cooperation among the nations themselves and with the US and will increase governmental support for international organizations and agreements. Moreover, signatories of the North Atlantic Pact will probably press for accelerated US military aid and will speed their own national defense programs. Some governments, especially the French, will attempt to secure firm US commitments for immediate and large-scale intervention in the event of a war with the USSR. Finally, greater efforts will be made, especially in France, Italy, and Vatican circles to secure the establishment of international control of atomic weapons.

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The Benelux countries will place greater reliance upon unified western defense plans and upon US efforts to strengthen the West and to hinder Soviet expansionist tendencies. Germany, Austria, and even Italy regard military occupation as inevitable in the event of another war because of their geographic vulnerability. Thus, the West German Government and Austria--the latter disillusioned by continued Soviet occupation--will probably press for an accelerated defense system integrated with those of the western powers. Italian intellectuals do not expect the USSR to exercise restraint in its use of the A-bomb, and popular demand for the control of atomic weapons is expected to increase in Italy, possibly fortified by similar representations from the Vatican. The traditionally neutral nations--Sweden, Switzerland, Spain, and Portugal--have not been considerably affected by the announcement of Soviet possession of the A-bomb. Spanish and Portuguese populations are generally apathetic because they realize their inherent weakness and dependence upon foreign military protection. Spain, fearing communism, has criticized the US for not making war on the USSR while the US still had a monopoly of the bomb. Predominantly neutral Sweden is expected to tend even further toward avoiding military commitments with the West. Among others, the Swiss and the Dutch have expressed doubts that the USSR actually possesses the atomic bomb, but they believe that the USSR will nevertheless exploit the propaganda value attaching to its possession.

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